

DEPARTMENT OF INSURANCE**Legal Division, Rate Enforcement Bureau**

45 Fremont Street, 21st Floor
San Francisco, CA 94105



**NOTICE OF PROPOSED EMERGENCY REGULATIONS
PURSUANT TO CALIFORNIA INSURANCE CODE SECTION 12921.7**

File No. ER02025956

December 19, 2002

CALIFORNIA LOW COST AUTOMOBILE INSURANCE PROGRAM**Uninsured Motorists and Medical Payment Coverages**

California Insurance Commissioner Harry W. Low hereby provides notice, pursuant to California Insurance Code Section 12921.7, that he will propose to the Office of Administrative Law the amendment of the California Automobile Insurance Low Cost Program Plan of Operations, referenced in Title 10, Chapter 5, Subchapter 3, Section 2498.6 of the California Code of Regulations, on an emergency basis pursuant to California Government Code Section 11346.1(b).

This Notice contains a description of the problem and the necessity for regulation, an explanation of the justification for the adoption of the regulation on an emergency basis and a copy of the proposed regulation.

This Notice is provided to every person, group, and association who has previously filed a request for notice of regulatory action with the Commissioner. Copies of the Notice are available at the Department of Insurance, 45 Fremont Street, 21st Floor, San Francisco, California, 94105 and on the Department's web site at www.insurance.ca.gov.

The proposed regulation will be submitted to the Office of Administrative Law together with the rulemaking file not less than five (5) working days after the mailing of this Notice, as required by California Insurance Code Section 12921.7. Questions regarding this Notice should be directed to:

California Department of Insurance
Legal Division, Rate Enforcement Bureau
Attn: Mary Ann Shulman
45 Fremont Street, 21st Floor
San Francisco, California 94105
(415) 538-4133

DESCRIPTION OF PROBLEM AND NECESSITY FOR REGULATION

Low Cost Auto Insurance Program legislation, Stats. 2002, chapter 742, (formerly SB 1427, Escutia) was approved by the Governor on September 20, 2002. The legislation amended

Insurance Code Sections 11629.71 and 11629.91 requiring that, effective January 1, 2003, uninsured motorists and medical payments coverages be offered to eligible consumers. The legislation does not specify a rate, but merely states that additional premiums are authorized.

The low cost automobile insurance pilot programs were established within the California Automobile Assigned Risk Plan (CAARP) and follow CAARP procedures where appropriate and not inconsistent with the low cost automobile insurance statutes. Under the assigned risk plan, applicants for insurance are randomly assigned to a licensed automobile insurer and that insurer issues and services the policy in accordance with the Plan. Customarily, CAARP and low cost automobile insurance pilot program rates are uniform so that the consumer pays the same rate irrespective of what company the consumer is assigned.

Consistent with Insurance Code Section 11580.2, the legislation provides for uninsured motorists coverage at the lower liability limits of the underlying low cost auto insurance policy. Because the low cost auto insurance policy is at lower liability limits than basic limits policies in the voluntary market, rates must be independently calculated. Thus, establishing uniform rates for the additional coverages requires significant and time-consuming actuarial efforts.

In contemplation of implementation of the legislation, at its October 2002 regular meeting, CAARP's Advisory Committee requested its actuarial staff to prepare a rate proposal. At a specially-convened teleconference on November 14, 2002, CAARP's Advisory Committee endorsed the concept of uniform rates for these additional coverages. On November 21, 2002, CAARP's Advisory Committee proposed to the Commissioner rates for these coverages. Subsequently, the Department reviewed CAARP's methodology and approach, but determined that rates different than those proposed by CAARP should be established for the legislatively-mandated coverages. Those rates are the ones proposed for adoption in this emergency regulation.

To establish uniform rates for the additional coverages, the Plan of Operations must be amended.

JUSTIFICATION FOR ADOPTION AS EMERGENCY REGULATIONS

There is not sufficient time to follow the CAARP and low cost automobile insurance pilot programs' statutory rate-setting procedures. Because SB 1427 requires uninsured motorists and medical payments coverages to be offered as of January 1, 2003, adoption of rates on an emergency basis is the only way to implement rates by that date.

The Insurance Commissioner proposes the adoption of this rulemaking action pursuant to the authority vested in him by California Insurance Code Sections 11620, 11624, 11629.7, 11629.72, 11629.9, 11629.92 and 11629.99. The purpose of this rulemaking action is to implement, interpret, and make specific the provisions of 2002 Stats. Chapter 742, operative January 1, 2003.

TEXT OF THE PROPOSED REGULATION

The text of the proposed rulemaking is attached.

Dated: December 19, 2002

HARRY W. LOW
Insurance Commissioner

By: _____s/s_____
Mary Ann Shulman
Staff Counsel